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RELATION OF INVESTMENTS TO SOUTH AMERICAN TRADE ¹

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WE are living at a time when history is being made daily and the march of events in this world movement is so rapid and so revolutionary in character that we suddenly find ourselves within the early realization of hopes which only a short time ago appeared remote from attainment. A year ago, when moratoria were in force in practically every country but our own, and when our stock exchange was closed from fear of European liquidation of American securities and the threatened draining of this country of considerable of its gold reserves, no one was bold enough to predict that during the first ten months of the year 1915 our imports of gold from European and other countries would exceed two hundred and fifty million of dollars; that a syndicate of bankers from every part of the country would successfully float for popular subscription a foreign loan of five hundred millions of dollars; that private bank credits would be arranged with various foreign banking institutions and governments, to the extent of a half-billion dollars, and that our investing public would absorb American securities sold by Europe on a rising market to an amount estimated at one billion dollars. Surely, such an exhibit of accumulated wealth and the readiness of the public for investing it in securities of domestic enterprises or in loans to foreign governments does not justify the oft-repeated statements by our men of finance that we are still a debtor nation, and therefore cannot hope, at least for some time to come, to be in a position to finance the needs for industrial and commercial enterprises of Latin America.

¹ Read at the meeting of the Academy of Political Science, November 12, 1915.

The Anglo-French loan has demonstrated in a very effective manner that foreign loans—not government, but for industrial or transportation enterprises—are usually made to enable their recipients to pay for the materials and labor required for the carrying out of such projects. Our bankers, in making their offer of bonds to the public, made it very plain and specific that the funds realized from the sale of such bonds would be used solely for payment for manufactures, merchandise and farm products purchased in this country. By granting such credit to France, England, Russia and Italy, not only are our manufacturers, farmers and merchants assured of prompt payment for their products, but we enhance the purchasing power of our customers to at least the amount of the loans granted and enable them to make further necessary purchases from us.

This and similar foreign loans recently made show clearly that there is a definite relation between investments and foreign trade, and upon the character of the investment—whether it is in a foreign governmental loan or in a foreign railway, mine, public utility or other industrial enterprise—depends the greater or smaller benefit to our industries and commerce. Foreign government loans made to defray administrative expenditures or for the carrying out of economic or monetary reforms can be of no direct benefit to our industries or general commerce. Foreign loans made for the purpose of acquiring existing South American railways or for the building of new lines, or for the opening up of new fields of activity, such as cattle-raising, meat-packing, the development of agriculture and lumber industries, are of direct and immediate benefit to the manufacturers and merchants of the country making the loan.

We all know that the economic condition of practically all Latin-American countries is such as to make them for many years absolutely dependent upon outside capital for the building of their railways, the development of their vast natural resources, the reclamation of territories, and improvement in sanitation and health conditions to permit of a large influx of immigration.

England and France and, to a smaller extent, the other European countries have been fully alive to the opportunities there available and have for many years supplied freely the required capital; the great European war suddenly cut off this source of supply, which brought about the severest commercial and industrial depression ever experienced throughout the whole of South America.

There is no probability of a resumption of activity to any appreciable extent in any new construction or development in Latin-America until a new source of capital can be found to replace that held by Europe for the past half century or more. Herein lies our opportunity, not only to render an inestimable service to our sister republics of the South in enabling them to proceed with their remarkable development in all branches of industry, transportation, agriculture and commerce which was suddenly arrested by the European conflict, but also so firmly to intrench ourselves in those countries that we could look upon them as permanent markets for the products of our industries and mines.

Our bankers and the investing public must come quickly to a clear understanding of the important relation that investments in Latin-American enterprises—whether in transportation, industry, agriculture or sanitation—have on our trade with South America and indirectly upon the stability of good business at home. They must realize that only through American investments in and control of such enterprises in South America can we hope to secure our share of the imports into those countries of all the varied manufactured products. Such financial control would have a far more important influence on the magnitude of our sales to those countries than tariff agreements with the most-favored-nation clause in our favor, greater than more frequent steamship communications, local American banks, and other factors, all of which are nevertheless important problems by themselves. In fact, I believe that liberal investment in South and Central American countries which would supply the financial assistance requisite for their development, is fundamental toward the solution of all of the above problems.

Let us take as an illustration the building or control of an important railway in any country of South America.

The country that furnishes the capital for the construction of such a railway naturally sends out a corps of engineers from among its own nationals. These men, from motives of patriotism and from their home training and experience and a familiarity with their own products, insist, and rightly so, that all materials, machinery and equipment of all kinds be purchased in their home country. The manufacturer from another country is not even allowed to submit a proposal, unless the home manufacturers cannot supply the required materials in time. After the railroad is built by the engineers of the country that furnished the capital, a management is installed composed of the nationals of the same country, and all future supplies for such a railway, for renewals and extensions, are obtained from the home manufacturers. The commerce thus created between a small or a large center in some part of South or Central America with the country that furnished the capital for the building of such railway is not limited to the actual supply of railway materials incident to the project, but also to the great variety of products—from wearing apparel to household utensils—which civilized man nowadays requires. This commercial link once established between the home country and some foreign outpost, important commercial transactions soon follow. The ideas, the standards and the products of the country which furnished the capital and sent out its pioneers to build the railway soon predominate and permeate every branch of its life, its thought and its activity. The growth of the heretofore small communities of settlers invites new enterprises, such as the building of power plants, for the supply of electric light, urban and interurban traction, the opening of banks and of merchandising establishments. They are invariably undertaken either by the same group of men who built and developed the railway or by their compatriots. And so step by step commercial control is obtained of a certain section of country, from which foreign competition—that is, competition from any country which did not participate in the supply of capital for the various enterprises—is barred more effectively than by a Chinese Wall.

Throughout the various countries of South and Central America we thus find sections of country under complete commercial control by English, French, German, Belgian or North American interests. I put North American interests at the bottom of the list advisedly. We have lesser investments in South America than any of the leading European nations to which I have made reference. And yet the experience of the comparatively limited American enterprises in Cuba, Central America, Peru and Chile has been very gratifying. The United Fruit Company, the Bethlehem Steel Corporation, the Chile Exploration Company, the Cerro de Pasco Mining and Railway Company are a few examples of successful foreign undertakings. Prior to the revolution in Mexico, American investments there proved very safe and lucrative, and will doubtless prove so again when peace is re-established. The countries south of us are full of opportunities for the development of latent resources, and although we can look upon the existing markets as profitable fields for us to supply, we must not overlook the potential markets which the future will provide if we are instrumental in opening up new territories and encouraging settlement in new communities.

The tremendous advances made in recent years in medical science have had their effect in making health resorts out of what were heretofore considered unhealthy districts. Once the health conditions are improved and proper transportation facilities provided, we can predict a flow of immigration into the countries that have vast latent resources. Viscount Bryce, in his book on South America, states that there is a strong possibility that during this century South America will have a population of over one hundred million persons. Dr. Gorgas, who has done such good work in Cuba and Panama, looks forward to the day when the centers of population will be in the tropical and semi-tropical countries, as was the case many centuries ago.

The above opinions are given to show that in discussing this subject we must not consider only the present purchasing power of our southern neighbors. Our rewards will be proportionate to the amount of effort we put forth in developing

financially and otherwise the potentialities of the countries south of us.

The future prosperity of our industries will depend in a large measure upon the extent of our control of the neutral markets of the world, and those of the South American republics appear most promising because most of them do not possess the combination of the fundamental elements that would enable them either to become our competitors in the iron and steel and kindred industries, or even to satisfy their home demands for such products.

The widely-heralded opportunities for the sale of our manufactures in South America at the outbreak of the European war were soon dissipated when it became evident that the sudden arrest of the flow of European capital into South American enterprises virtually suspended all new construction; international commerce became dislocated and the purchasing power of the peoples south of us very much curtailed. While slight improvements are noticeable here and there, no resumption of general commerce and activity can be hoped for until our South American neighbors can find new sources of capital.

Under the stimulus of war contracts our industries are now enjoying a period of great prosperity. However gratifying this expansion may be at the present time, it carries with it elements of disaster unless we are far-sighted enough and prepare now for the inevitable reaction that is to follow the cessation of hostilities in Europe; this reaction will be greater in its intensity the longer the war lasts.

Our industries in the past, as well as at present, have responded quickly to waves of prosperity by largely increased productive capacity which could not always be utilized when normal conditions arrived. However, the natural growth and development of this country was rapid enough in the past to absorb quickly the increase in manufacturing capacity.

It was estimated that prior to the war 65 per cent of our manufacturing capacity was ample to supply all normal domestic demands, leaving 35 per cent of capacity for demands for export. Only during comparatively brief periods were we able to operate our plants to full capacity because of the wide

fluctuations in both domestic and foreign demands for our products. The expansion that has taken place within the last few months in response to urgent demands from the belligerent nations for our various manufactures has already increased appreciably our productive capacity. It requires no great imagination to picture the condition of our industries if the war were to stop within a few months or a year. Those who believe that the present demands from Europe for our manufactured products will continue after the war are living in a fool's paradise. What will become of the large surplus capacity of our plants so largely expanded during the past few months? South American markets are among the most promising as capable of absorbing a large proportion of our surplus capacity provided we act quickly and intrench ourselves there through investments in railways and other industrial enterprises.

It has been frequently stated that our natural resources and industries will be called upon to supply Europe, during the period of reconstruction which is to follow the termination of hostilities, with much of what has been destroyed during the war. This is probable but not at all certain. There are many indications even now which justify the belief that the European nations, impoverished and crippled by this titanic struggle, will make every effort to spend as little money outside of their own countries as possible. Furthermore, there has taken place in Europe, alongside of the destruction of plant and permanent structures, an expansion of manufacturing capacity fully equal to our own. Industrial Germany—our chief competitor in the neutral markets of the world—is working to its maximum capacity, though largely for the supply of the armies in the field, and will at the close of the war have increased its manufacturing facilities, particularly in iron and steel products. France, with its industrial and mining provinces in the hands of the Germans, has established throughout the central and the southern provinces new plants for the manufacture of munitions of war which are well equipped and most of which will remain permanent additions to the manufacturing plant or capacity of France when Germany has been forced to evac-

uate its northern provinces. England likewise has quickened the pace of its manufacturing plants and created many additional ones, and nearer to our own borders is Canada, which produces munitions of war on a scale that was hardly believed possible a year ago.

Let us not leave out of consideration also the fact that the disbanding of millions of men now engaged in destruction will force upon the European markets a large supply of labor before the industries will have had time to readjust themselves from the manufacture of war munitions to products required for peaceful industry and commerce. This will have the effect of depressing the cost of labor in Europe, whereas in this country it will be higher than ever in its history. We shall be confronted with a condition of largely increased manufacturing capacity throughout the world and with a rapidly diminishing demand.

It will be only natural, and certainly statesman-like, for the Allies to form commercial treaties that would result in mutual co-operation during the period of rehabilitation of their industries instead of calling upon outside though friendly nations for the supply of materials and manufactures required. Plans for such co-operation are even now being carefully considered and worked out by the leading men of the belligerent countries. Great industrial activity may, therefore, be expected in Europe during the reconstruction period, but it may not extend over here. How long such activity would last no one would dare to predict, but it is certain to be followed by severe and prolonged depression.

Mr. Lloyd George, in one of his addresses before the House of Commons, about a year ago, after prognosticating a period of industrial prosperity during the reconstruction period, said:

But when that period is over we shall be face to face with one of the most serious industrial situations with which we have ever been confronted. We shall have exhausted an enormous amount of the capital of the world which would otherwise have been available for industries. Our purchasers both here and abroad will be crippled. Their purchasing power will have been depressed. Let us make no

mistake. Great Britain will be confronted with some of the gravest problems with which it has ever been faced. . . . With wisdom, sagacity and foresight we shall go through it, but let us think about it in time, and lay down our plans accordingly.

I should like to commend to our leaders in finance and industry Lloyd George's appeal to think about it in time and lay down our plans for facing the reaction that is certain to follow this present abnormal activity in our industries and commerce. We are becoming more and more dependent for the full employment of our plants upon the stability and permanency of the demand for our manufactured products from the neutral markets of the world, and the surest way to establish such permanency is through liberal investments of our capital in South and Central American enterprises.

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